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**FISCAL IMPACT STATEMENT**

**LS 7830**

**BILL NUMBER:** SB 628

**NOTE PREPARED:** Jan 14, 2005

**BILL AMENDED:**

**SUBJECT:** Caretaker Income Tax Deduction.

**FIRST AUTHOR:** Sen. Smith S

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** The bill provides a \$1,000 Adjusted Gross Income Tax deduction for each individual for whom an individual taxpayer is a caretaker.

**Effective Date:** July 1, 2005; January 1, 2006.

**Explanation of State Expenditures:** The DOR will incur additional administrative expenses related to changing tax forms, instructions, and computer programs to accommodate these new tax credits. To this extent, the DOR's current level of resources should be sufficient to implement these changes. However, the DOR could incur additional audit expenses as taxpayers could claim deductions without having any easily obtained forms of proof that the taxpayer was a caretaker, as defined by the bill, during the tax year. The extent of this impact is unknown.

**Explanation of State Revenues:** *Summary:* The bill would reduce state AGI Tax liabilities for individual taxpayers who are "caretakers" for others individuals. The annual revenue loss due to this bill could potentially range from about \$4.1 M to about \$12.9 M beginning in FY 2007. This range assumes care giving prevalence rates similar to national estimates for care giving prevalence; and assumes that each tax filer claiming the deduction provides care to only one individual (and therefore claims only one \$1,000 deduction). If 10% of the eligible filers claimed two deductions for care provided to two individuals, the revenue loss would increase by \$413,000 to \$1.3 M.

*Background:* The bill creates an AGI Tax deduction for taxpayers who are "caretakers" during the tax year. The bill defines a "caretaker" as an individual who: (1) provides ongoing care for an individual who is at least

18 years of age and has special needs; and (2) does not receive money for the care provided. The deduction is equal to \$1,000 for each individual to whom the individual taxpayer provides ongoing care. For a taxpayer claiming one \$1,000 caretaker deduction, this would effectively reduce his or her annual income tax liability by \$34. Since the deduction is effective beginning in tax year 2006, the fiscal impact would begin in FY 2007. Eighty six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

The estimated fiscal impact is based on survey research suggesting that anywhere from 4.5% to 14% of the population provides ongoing assistance to a person needing assistance with activities of daily living (ADL) or instrumental activities of daily living; or (2) a person needing assistance due to a disability or chronic illness. ADLs include walking, dressing, and bathing; and IADLs include housework, grocery shopping, and meal preparation. Assuming these prevalence rates would hold for about 2.7 M tax filers in Indiana, the number of filers eligible for at least one deduction could potentially range from about 121,500 to 378,000.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Because the proposed deduction would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:** Counties with local option income taxes.

**Information Sources:** OFMA Income Tax databases. Peter Arno, et al., “The Economic Value of Informal Caregiving, *Health Affairs*, 1999. U. S. Census Bureau, *Preliminary Estimates on Caregiving from Wave 7 of the 1996 Survey of Income and Program Participation*, No. 231, 1999. U. S. Census Bureau, *The Need for Personal Assistance with Everyday Activities: Recipients and Caregivers*, Current Population Reports, Series P-70, No. 19, 1990.

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